

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

**AUDIT REPORT
OF**

**STATE POLICE PENSION, BENEFIT, AND
EMPLOYEE DEATH AND DISABILITY FUNDS
STATE OF INDIANA**

July 1, 2002 to June 30, 2003

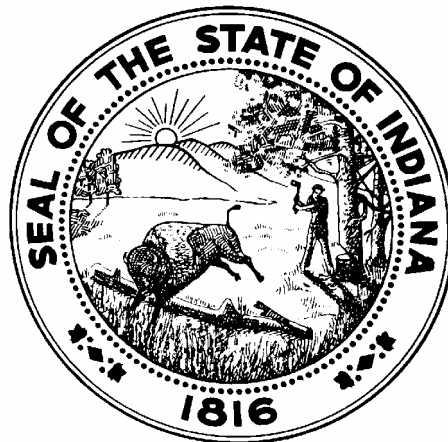


TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials.....	2
Transmittal Letter	3
Audit Results and Comments:	
Accumulated Insurance Balance	4
Independent Verification of Member Records Against Public Death Records.....	4
Exit Conference	5
Official Response	6-7

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Trustee	Mr. Tim Berry	02-10-99 to 02-09-07
Superintendent	Mr. Melvin J. Carraway	01-08-01 to 01-10-05
Chairman of the Advisory Board	Mr. Melvin J. Carraway	01-08-01 to 01-10-05



STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

TO: THE OFFICIALS OF THE STATE POLICE PENSION, BENEFIT,
AND EMPLOYEE DEATH AND DISABILITY FUNDS

We have audited the records of the State Police Pension, Benefit and Employee Death and Disability Funds for the period July 1, 2002, to June 30, 2003, and certify that the records and accountability for cash and other assets are satisfactory to the best of our knowledge and belief except as stated in the audit results and comments. The financial transactions of this office are reflected in the Indiana Comprehensive Annual Financial Report.

STATE BOARD OF ACCOUNTS

November 25, 2003

STATE POLICE PENSION, BENEFIT, AND
EMPLOYEE DEATH AND DISABILITY FUNDS
AUDIT RESULTS AND COMMENTS
June 30, 2003

ACCUMULATED INSURANCE BALANCE

As stated in the prior four audit reports (most recently B20244 and B18089), the Employee Death and Disability Fund has been established to allow employees to voluntarily purchase additional death and disability insurance coverage to supplement the employer-paid insurance provided under the terms of the Benefit Fund. The supplemental premiums are deducted from employees' checks bi-weekly and held in the fund until remitted to the insurance company monthly. The account should have a zero balance except for timing differences between the deduction and remittance of premiums. In previous reports we found that total amounts collected from employees had exceeded payments to the insurance company. During the current audit period we found that the average premiums remitted exceeded average premiums withheld by approximately \$1,850 per month. This resulted in a partial liquidation of the fund during state fiscal year 2003. In addition, we found that the Indiana State Police Department does not have processes in place to (1) reconcile premiums paid with the outside vendor's records of what is owed; (2) reconcile premiums paid to premiums withheld on a periodic basis, such as bi-annually, when the biweekly withholding and monthly payment schedules coincide; or (3) correct discrepancies between premiums paid and premiums withheld by making adjustments to future premiums paid or withheld. Without methods in place to properly account for remittances to the insurance company this fund will continue to be at risk for the significant under/over remittances that have been noted for several years.

Each agency, department, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records. Each agency, department, institution or office is responsible for compliance with contract provisions. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1).

INDEPENDENT VERIFICATION OF MEMBER RECORDS AGAINST PUBLIC DEATH RECORDS

During the current audit, we found that active member records for the State Police Pension have not been periodically verified against public death records. This is a widely used industry control practice.

Each agency, department, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1).

STATE POLICE PENSION, BENEFIT, AND
EMPLOYEE DEATH AND DISABILITY FUNDS
EXIT CONFERENCE

The contents of this report were discussed on January 20, 2004, with Mr. Tim Berry, Treasurer of State. The official response to the audit finding has been made a part of this report and may be found on Page 6.

The contents of this report were discussed on January 27, 2004, with Major Phil Parker, Executive Secretary of the Pension Advisory Board. The official response to the audit finding has been made a part of this report and may be found on Page 7.



STATE OF INDIANA
OFFICE OF THE TREASURER
INDIANAPOLIS
46204

TIM BERRY
TREASURER OF STATE

February 12, 2004

Charles Johnson III, State Examiner
State Board of Accounts
Room E418, 302 West Washington Street
Indianapolis, IN 46204-2281

Dear Mr. Johnson,

The following are responses to the audit comments received in the exit conference on January 20, 2004, concerning the examination of the Indiana State Police Pension Trust Fund and Benefit Fund for fiscal year 2003:

Accumulated Insurance Balance

As noted in the audit comment, the Employee Death and Disability Fund should have a zero balance with the exception of timing differences between deductions and remittances. There has been an accumulated balance noted for several years in prior audits resulting from deductions exceeding premium remittances. However, it was noted during this audit period that there was a partial liquidation of the accumulated balance because average premiums remitted exceeded average premium deductions. It is my understanding that the State Police Department is working on developing procedures to prevent the continuation of future over/under remittances to the insurance company. As Trustee, I continue to pledge to provide any needed assistance to help the Department develop and implement internal control procedures for this process.

Independent Verification of Member Records Against Public Death Records

Because of the small number of members and the personal closeness of all the members in this plan, we have always been able to utilize an informal process. We believe this process includes enough internal and external controls to find out about member deaths and at no cost to the plan. There has never been a payment to a deceased member that was not recovered in a timely manner.

This is the first time there has been any audit comment concerning the need to verify payments to members against public death records. However, we do understand the concern and have contacted an outside company who can provide this type of service and will continue to consult with sources to formalize our current verification process.

Sincerely,

A handwritten signature in black ink that reads "TIM BERRY".

Tim Berry
Treasurer of State

Cc: Superintendent Melvin Carraway

STATE OF INDIANA

INDIANA STATE POLICE

INDIANA GOVERNMENT CENTER NORTH
100 NORTH SENATE AVENUE

INDIANAPOLIS, INDIANA 46204-2259

www.state.in.us/isp

February 9, 2004

Charles Johnson III, State Examiner
State Board of Accounts
Room E 418, 302 West Washington Street
Indianapolis, Indiana 46204-2281

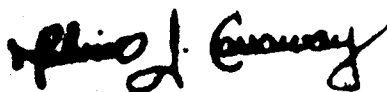
Dear Mr. Johnson:

The following is a response the audit comment received in the exit conference on January 27, 2004, concerning the examination of the Indiana State Police Pension Trust Fund and Benefit Fund for fiscal year 2003.

Accumulated Insurance Balance

It was mentioned that average premiums remitted exceeded average premiums withheld and that processes need to be developed to reconcile these transactions. Also, mentioned was the need for independent verification of member records against public death records. I will consult with the Trustee to determine the most appropriate course of action to rectify this matter.

Sincerely,



Melvin J. Carraway
Superintendent

MCJ

cc: Tim Berry, Treasurer of State
Lieutenant Colonel Johnson
Major Parker

INTEGRITY • SERVICE • PROFESSIONALISM